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EX PARTE OR LATE FILED

February 6, 1997

RECEIVED

FEB 6 1997

EX PARTE

FEDERAL COMMUNICATIONS COMMISSION
OFFICE OF SECRETARY

Mr. William F. Caton
Acting Secretary
Federal Communications Commission
1919 M Street, N.W., Room 222
Washington, D.C. 20554

DOCKET FILE COPY ONLY

Re: Implementation of the Local Competition Provisions in the Telecommunications Act of 1996, CC Docket No. 96-98, and Access Charge Reform, CC Docket No. 96-262.

Dear Mr. Caton:

In accordance with the Commission's rules governing ex parte presentations, please be advised that the attached Erratum revises an inadvertently incomplete notice of ex parte presentation previously filed on January 31, 1997. An additional attachment is provided which revises the written material from the January 30, 1997 meeting.

Please stamp and return the provided copy to confirm your receipt. Do not hesitate to contact me should you have any questions.

Sincerely,

Attachments

cc: Ms. Regina Keeney
Mr. Richard Metzger



Stephen S. Melnikoff
Vice President -
Federal Regulatory

SBC Communications Inc.
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Washington, D.C. 20004
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[ERRATUM: FILED FEBRUARY 6, 1997]

January 31, 1997

EX PARTE

Mr. William F. Caton
Acting Secretary
Federal Communications Commission
1919 M Street, N.W., Room 222
Washington, D.C. 20554

Re: Implementation of the Local Competition Provisions in the
Telecommunications Act of 1996, CC Docket No. 96-93, and
Access Charge Reform, CC Docket No. 96-262.

Dear Mr. Caton:

In accordance with the Commission's rules governing ex parte presentations, please be advised that yesterday Thomas M. Barry and Darley T. Hubbard, representing SBC Communications Inc., met with Regina Keeney and Richard Metzger, of the Common Carrier Bureau. The purpose of the meeting was to discuss financial and policy implications of these proceedings.

Due to the late hour at which the meeting concluded, we are filing this notification with your office today.

Please stamp and return the provided copy to confirm your receipt. Do not hesitate to contact me should you have any questions.

Sincerely,

Amelia H. ||

Attachments

cc: R. Keeney
R. Metzger

EFFECT OF COMMISSION TELRIC COSTING/PRICING PRINCIPLES

The following information is based on:

- Costs shown on actual books and records of the Company for full fiscal year of (1995).
- The TELRIC prices are based on either the proxy price included in the FCC's Order or the cost/price methodology included in the Order as appropriate.
- The costs "avoided" are those costs included in the FCC's Order.
- The return (profit) is the actual return on the books and records of the Company for 1995 and represents the monies used to pay dividends to stockholders.
- All of this information is filed with the FCC and is readily available to them.

\$ PER LINE/PER MONTH

	<u>Actual 1995</u>	<u>Adjusted for FCC Order</u>
Revenues	\$9.32	25.39 = 31.5% Discount
Costs Excluding Return	43.22	43.22
Less Costs Avoided	—	- \$33 *
Adjusted Costs	43.22	34.39
Return Profit	-\$6.10	-\$9
Revenue/Cost/Return	0	- 9.00

Under the Order, this company has no return to investors (profit) and, in addition, a real loss of \$9.00 per line per month.

\$9 per line per month = \$1.5B for this company

*This is an overstatement of the costs which would actually be avoided but a calculation consistent with the FCC's Order.

DOJ RECOMMENDATION AND
LIKELY RESULTS OF FCC
IMPLEMENTATION OF UNIVERSAL SERVICE

ARKANSAS

	BASIC RESIDENTIAL SERVICE	
	RURAL	MAJOR METRO
Current State Price ¹	\$ 12.11	\$ 16.31
Federal Maximum Charge	3.50	3.50
Total Monthly Price	15.61	19.81
DOJ/FCC Proposed Price ²	43.85	11.85
Monthly Increase (decrease)	28.24	(7.96)
Annual Increase (decrease)	338.88	(95.52)

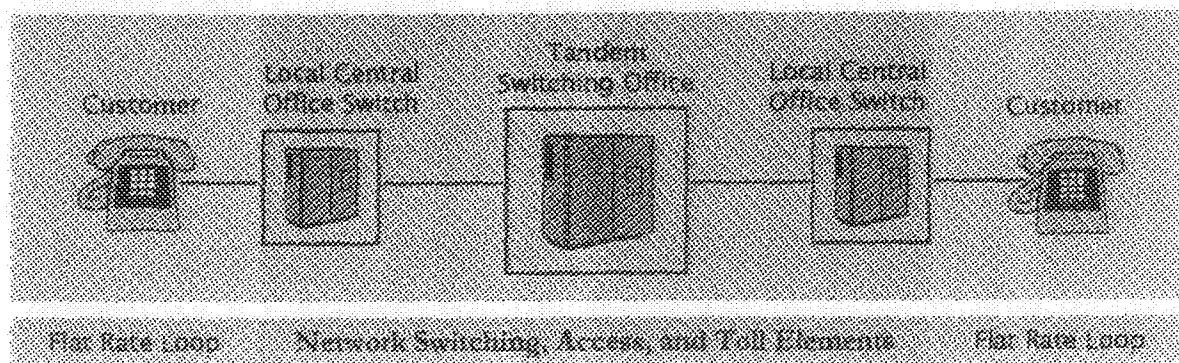
*Prices regulated by State Commission and on file with that Commission.

¹DOJ Reply Comments CC Docket No. 96-98, filed 5-30-96

²Prices are not based on the true cost of the service but rather the MCI/Hatfield model which dramatically underestimates costs/prices. Correct price/cost and resultant increase would be considerably larger.

How the 1996 PUC Arbitration Award Impacts Southwestern Bell Telephone

- The PUC arbitration award established the prices that local service providers (LSPs) would pay Southwestern Bell Telephone (SWBT) for use of their network.



- The PUC award gives LSPs two ways to purchase SWBT's facilities to provide local service. LSPs can buy most SWBT network services at a discount of 21.6 percent to resell to their customers (long distance-related services are not discounted). LSPs can also purchase unbundled elements of SWBT's network and rebundle them to serve their customers.
- Resold Services**—In Houston, SWBT earns about \$48 per month on typical services sold to its residential customers, and about \$107 per month on typical services sold to its business customers. If SWBT sells these same services at the discounted rate to an LSP reseller, SWBT revenues drop from \$48 to \$41 for residential services and from \$107 to \$91 for business services. The 21.6 percent discount on most services results in revenue losses of about 15 percent on typical services for both these customer groups.
- Rebundled Services**—SWBT loses even more revenue if it sells unbundled network elements to an LSP for rebundling to its customers. SWBT's monthly revenues drop from about \$48 for typical residential services in Houston to only about \$20 when selling unbundled network elements to an LSP. Revenues from business services drop from about \$107 to the same \$20 figure. These reductions amount to about 58.3 percent for residential services and more than 81 percent for business services.
- These examples show that SWBT loses about four to five times more revenue when LSPs rebundle, rather than resell, exactly the same services. SWBT believes that the new telecommunications laws did not intend for rebundling to be a way for LSPs to receive additional discounts on the same set of services. That is, however, the effect of the PUC award.

Source: SWBT, "Impact of Texas PUC Interconnection Award," Austin, Texas, December 24, 1996 (one-page handout).

LST 1.10 97

Change in Annual Cost of Basic Telephone Service

STATE	RURAL	MAJOR METRO
Alabama	\$326.40	\$ (95.40)
Alaska	406.20	247.80
Arizona	326.04	(86.20)
Arkansas	338.88	(98.52)
California	349.20	(104.88)
Colorado	305.04	(138.00)
Connecticut	327.24	(106.44)
Delaware	352.68	(39.24)
Florida	420.50	(69.88)
Georgia	373.80	(120.84)
Hawaii	366.40	(72.60)
Idaho	362.88	244.20
Illinois	Measured	Measured
Indiana	368.00	(57.84)
Iowa	351.60	(66.40)
Kansas	376.80	(71.84)
Kentucky	374.16	(98.40)
Louisiana	362.56	(94.68)
Maine	376.08	236.68
Maryland	301.32	(136.20)
Massachusetts	366.28	(51.00)
Michigan	Measured	Measured
Minnesota	323.88	(102.00)
Mississippi	306.72	(127.92)
Missouri	393.60	(63.24)
Montana	318.12	222.12
Nebraska	305.40	(147.60)
Nevada	364.20	(43.80)
New Hampshire	352.88	186.12
New Jersey	403.20	1.82
New Mexico	350.88	(91.80)
New York	334.80	(174.00)
North Carolina	388.92	(49.92)
North Dakota	363.52	229.68
Ohio	399.00	n/a
Oklahoma	361.56	(71.88)
Oregon	340.20	(83.40)
Pennsylvania	385.80	(73.08)
Rhode Island	336.60	(106.92)
South Carolina	319.80	(98.80)
South Dakota	310.80	176.40
Tennessee	393.60	(45.60)
Texas	386.40	(59.64)
Utah	389.16	5.16
Vermont	370.80	231.00
Virginia	382.08	(90.12)
Washington	368.84	(63.04)
West Virginia	Measured	Measured
Wisconsin	Measured	Measured
Wyoming	332.52	212.52

[Revision after the January 30, 1997 meeting]

PROJECTED IMPACT OF THE
FCC's COMPETITION TRILOGY
ON THE PRICE OF
BASIC RESIDENTIAL SERVICE
BASED UPON DOJ's CALCULATIONS

ARKANSAS

	BASIC RESIDENTIAL SERVICE	
	RURAL	MAJOR METRO
Current State Price ¹	\$ 12.11	\$ 16.31
Federal Maximum Charge	3.50	3.50
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